NITCHES INC
Form 10-Q/A
October 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended**:** **February 28, 2007**

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from**:** **to**

Commission File Number: **0-13851**

NITCHES, INC.
(Exact name of registrant as specified in its charter)

California	**95-2848021**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10280 Camino Santa Fe, San Diego, California	**92121**
(Address of principal executive offices)	(Zip Code)

(858) 625-2633
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non- accelerated filer [**X**]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

As of April 12, 2007 the registrant had 5,253,507 shares of common stock outstanding.

EXPLANATORY NOTE

We filed our Quarterly Report on Form 10-Q for the period ended February 28, 2007 with the Securities and Exchange Commission on April 12, 2007 (the "Original Filing"). We are filing this Amendment No. 1 on Form 10-Q/A for the period ended February 28, 2007 ("Amendment No. 1") to make certain revisions to "Item 1. Financial Statements" related to the following:

(i) We are amending our disclosure with respect to our acquisition of Saguaro LLC to allocate the purchase price to the value of the trademarks acquired, rather than to goodwill. At the time of the acquisition, Saguaro's only assets were the trademarks "Saguaro" and "Saguaro West." The effect of this revision is to decrease the dollar amount ascribed to "goodwill" for the period ended February 28, 2007 from $5,344,000 to $2,620,000 and to increase the dollar amount ascribed to "other intangibles" from $3,733,000 to $6,457,000, and other related adjustments.

(ii) After filing the Original Filing we reevaluated our methodology for recognizing and reporting stock-based compensation expense in accordance with Statement of Financial Accounting Standards No. 123R (revised 2004), "Share-Based Payment." On August 21, 2007, we determined that due to the immediate vesting of 25% of all of the options granted during the period, we must recognize an expense equal to 25% of the fair value of the options granted in such period, rather than expensing these amounts ratably over the first year of the term of the options. As such, we are revising our disclosure with respect to stock-based compensation to reflect a revised stock-based compensation cost of approximately $301,000 for the six months ended February 28, 2007, which we previously reported as $119,000, and other related adjustments. This had the effect of increasing overall selling, general and administrative expenses for the period by $182,000 and increasing our net loss for the period by the same amount. Our audit committee has discussed this matter with our independent accountants.

Although this Amendment No. 1 only revises the disclosures in "Item 1. Financial Statements" of the Original Filing that are affected by the above discussed changes, we have presented our complete Quarterly Report on Form 10-Q with this Amendment No. 1.

Pursuant to the rules of the Securities and Exchange Commission, we have included currently-dated certifications from our chief executive and financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Except as otherwise specifically noted, all information contained herein is as of February 28, 2007 and does not reflect events or changes that have occurred subsequent to that date. Accordingly, this Amendment No. 1 should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Filing. The filing of this Amendment No. 1 shall not be deemed an admission that the Original Filing when made included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

NITCHES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	February 28 , 2007 (Unaudited)	August 31, 2006
Current assets:		
Cash and cash equivalents	$ 200,000	$ 228,000
Receivables:		
Due from factor, net	10,072,000	10,057,000
Trade accounts, net	150,000	484,000

Due from affiliates and employees	22,000	18,000
Total receivables	10,244,000	10,559,000
Inventories, less allowances	10,639,000	12,424,000
Deferred income taxes, current	587,000	587,000
Other current assets	714,000	628,000
Total current assets	22,384,000	24,426,000
Property and equipment, net	76,000	164,000
Goodwill	2,620,000	2,620,000
Intangibles, net	6,457,000	3,543,000
Other assets	28,000	31,000
	$ 31,565,000	$ 30,784,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Due to factor	$ 10,345,000	$ 9,676,000
Accounts payable	6,009,000	9,349,000
Accrued expenses	954,000	1,163,000
Note payable	-	513,000
Income taxes payable	635,000	89,000
Total current liabilities	17,943,000	20,790,000
Long term liabilities:		
Deferred income taxes, non-current	644,000	736,000
Shareholders' equity:		
Series A preferred stock, $100 par value; 25,000,000 shares authorized, 8,820 shares issued and outstanding	882,000	882,000
Common stock, no par value; 50,000,000 shares authorized; 5,253,507 shares issued and outstanding (4,653,507 - August 31, 2006)	7,873,000	5,143,000
Additonal Paid-in-Capital	301,000	
Retained earnings	3,922,000	3,233,000
Total shareholders' equity	12,978,000	9,258,000
	$ 31,565,000	$ 30,784,000

The accompanying notes are an integral part of these financial statements.

NITCHES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2007	**2006**	**2007**	**2006**
Net sales	$ 14,274,000	$ 12,314,000	$ 49,695,000	$ 27,029,000
Cost of goods sold	10,506,000	8,755,000	37,351,000	19,137,000
Gross profit	3,768,000	3,559,000	12,344,000	7,892,000
Selling, general and administrative expenses	4,536,000	3,250,000	10,653,000	6,287,000
Income (loss) from operations	(768,000)	309,000	1,691,000	1,605,000

Interest expense	(247,000)	(133,000)	(547,000)	(223,000)
Other income	-	-	-	1,000
Loss from equity investment	-	-	-	(11,000)
Income (loss) before income taxes	(1,015,000)	176,000	1,144,000	1,372,000
Provision (benefit) for income taxes	(485,000)	131,000	455,000	807,000
Net income (loss)	$ (530,000)	$ 45,000	$ 689,000	$ 565,000
Earnings (loss) per weighted average share				
Basic	$ (0.10)	$ 0.01	$ 0.14	$ 0.15
Diluted	$ (0.10)	$ 0.01	$ 0.13	$ 0.15
Weighted average common shares outstanding				
Basic	5,253,507	4,053,507	5,077,816	3,895,385
Diluted	5,391,230	4,053,507	5,200,724	3,895,385

The accompanying notes are an integral part of these financial statements.

NITCHES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)

	Six Months Ended February 28, 2007	2006
Preferred stock		
Balance, beginning of period	$ 882,000	$ -
Preferred stock issued	-	882,000
Balance, end of period	882,000	882,000
Common stock and paid-in capital		
Balance, beginning of period	5,143,000	1,495,000
Common stock issued	2,730,000	918,000
Stock-based compensation expense	301,000	-
Balance, end of period	8,174,000	2,413,000
Retained earnings		
Balance, beginning of period	3,233,000	2,765,000
Net income	689,000	565,000
Balance, end of period	3,922,000	3,330,000
Total stockholders' equity	$ 12,978,000	$ 6,625,000

The accompanying notes are an integral part of these financial statements.

NITCHES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended February 28, 2007	2006

Net income	$	689,000	$	565,000
Cash flows from operating activities:				
Depreciation and amortization		225,000		120,000
Non-cash stock option compensation expense		301,000		-
Loss from investment in unconsolidated subsidiary		-		11,000
(Increase) decrease in receivables		315,000		(2,346,000)
Decrease in refundable income taxes		-		36,000
Decrease in inventories		1,785,000		369,000
Increase in other assets		(83,000)		(11,000)
Decrease in accounts payable and accrued expenses		(3,549,000)		(2,077,000)
Increase in income taxes payables		546,000		627,000
Decrease in deferred income taxes, non-current		(92,000)		-
Net cash provided (used) by operating activities	$	137,000	$	(2,706,000)
Cash flows from investing activities:				
Acquisition cost of transaction		-		(95,000)
Capital expenditures		(21,000)		(25,000)
Cash (used) acquired in transaction		(300,000)		127,000
Net cash provided (used) by investing activities	$	(321,000)	$	7,000
Cash flows provided by financing activities:				
Advances from factor	$	669,000	$	2,890,000
Payment of loan payable	$	(513,000)	$	-
Net cash provided by financing activities	$	156,000	$	2,890,000
Net increase (decrease) in cash and cash equivalents		(28,000)		191,000
Cash and cash equivalents at beginning of period		228,000		192,000
Cash and cash equivalents at end of period	$	200,000	$	383,000
Supplemental disclosures of cash flow information:				
Cash paid during the period:				
Interest	$	546,000	$	223,000
Income taxes		-		180,000
Non-cash investing activity:				
Acquisition of subsidiaries				
Common stock issued	$	2,730,000	$	918,000
Series A preferred stock issued		-		882,000
	$	2,730,000	$	1,800,000

The accompanying notes are an integral part of these financial statements.

NITCHES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

1. Description of Business:

Nitches, Inc. and subsidiaries ("we," "our," "us," or the "Company") is a wholesale importer and distributor of clothing and home décor products manufactured to our specifications and distributed in the United States under our brand labels and retailer-owned private labels. We distribute clothing primarily in three categories: womens sleepwear and loungewear, women□s sportswear and outerwear, and men□s casual wear and performance apparel. We market sleepwear and loungewear under the following brands: Princesse tam tam®, Derek Rose®, Crabtree & Evelyn®, Disney Couture®, The Anne Lewin® Collection, The Bill Blass® Lifestyle Collection, The Claire Murray® Collection and Gossard®. We market women□s sportswear and outerwear under the following brands: Adobe Rose®, Country Tease®, Saguaro® and Southwest Canyon®. We market men□s casual wear and performance apparel under the following brands: Nat Nast®, Newport Blue®, Dockers®, The Skins Game®, and ZOIC®. We distribute home décor products under the Bill Blass® and Newport Blue® brands. We sell our branded products to better department stores, specialty boutiques, moderate department stores, and national and regional discount department stores and chains. We also develop and manufacture private label products for many leading retailers and catalogs.

2. Condensed Financial Statements:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC") for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with our consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended August 31, 2006. In the opinion of our management, all adjustments considered necessary for a fair presentation have been included in the interim period. Operating results for the six months ended February 28, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2007 or any future period.

3. Earnings Per share:

We calculate earnings per share in accordance with SFAS No. 128 "Earnings per Share". Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares issuable upon the exercise of outstanding stock options, warrants or other convertible instruments. The dilutive effect of outstanding options is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock can result in a greater dilutive effect from outstanding options. Additionally, the exercise of employee stock options can result in a greater dilutive effect on earnings per share.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except net income and per share amounts):

	Three Months Ended February 28,			**Six Months Ended February 28,**	
	2007		**2006**	**2007**	**2006**
Numerator:					
Net income (net loss)	$ (530,000)		$ 45,000	$ 689,000	$ 565,000
Denominator:					
Weighted average shares outstanding	5,253,507		4,053,507	5,077,816	3,895,385
Dilutive effect of options	137,723		-	122,908	-
Denominator for diluted earnings per share	5,391,230		4,053,507	5,200,724	3,895,385
Basic earnings (loss) per share	$ (0.10)		$ 0.01	$ 0.14	$ 0.15
Diluted earnings (loss) per share	$ (0.10)	*	$ 0.01	$ 0.13	$ 0.15

* Diluted loss per share is not reported due to the anti-dilutive effect of options on the basic loss per share.

NITCHES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statement (continued)

4. Inventories:

	February 28, 2007	August 31, 2006
Fabric and trim	$ 268,000	$ 222,000
Work in progress	985,000	2,939,000
Finished goods	9,773,000	9,651,000
Markdown allowances	(387,000)	(388,000)
	$ 10,639,000	$ 12,424,000

5. Trade accounts receivable:

Pursuant to the terms of an agreement between us and a factor, and a separate agreement between our subsidiary Designer Intimates, Inc., and the factor, we sell a majority of our trade accounts receivable to the factor on a pre-approved, non-recourse basis. The price at which the accounts are sold is the invoice amount reduced by the factor commission (0.3% of the invoice amount) and all selling discounts. For accounts sold to the factor without recourse, the factor is responsible for collection, assumes all credit risk, and obtains all of the rights and remedies against our customers. For such accounts, payment is due from the factor upon the earlier of the payment of the receivable to the factor by the customer, or the maturity of the receivable (generally 180 days from the date of shipment to the customer). As of February 28, 2007, $10.3 million of our trade accounts receivable were non-recourse receivables due from the factor.

Trade accounts receivable not sold to the factor remain in our custody and control and we maintain all credit risk on those accounts as well as accounts which are sold to the factor with recourse. The combined credit risk for non-factored and recourse receivables as of February 28, 2007, totaled $629,000, of which $162,000 had been collected by March 31, 2007.

Under the terms of our agreement, we may request payment from the factor in advance of the collection date or maturity. Any such advance payments are assessed an interest charge through the collection date or maturity at the factor's prime rate less 1.5% (one and one half percent) per annum. Our obligations with respect to advances from the factor are limited to the interest charges thereon. Advance payments are limited to a maximum of 85% (eighty-five percent) of eligible accounts receivable and 50% (fifty percent) of eligible finished goods inventory. The factoring agreement also provides for the issuance of irrevocable letters of credit for our purchase of inventory in the normal course of our business. Letters of credit are subject to a $12 million limit. All of our assets collateralize the advances and letters of credit. Our chairman, who also serves as our chief executive officer and chief financial officer, has also provided a personal guaranty in connection with our factoring arrangement.

The status of our trade accounts receivable and letters of credit are as follows:

	February 28, 2007	August 31, 2006
Receivables assigned to factor:		
Non-recourse	$ 10,306,000	$ 10,472,000
Recourse	441,000	168,000
Allowance for customer credits and doubtful accounts	(675,000)	(583,000)
Due from factor, net	10,072,000	10,057,000
Non-factored accounts receivable	188,000	544,000
Allowance for customer credits and doubtful accounts	(38,000)	(60,000)
Trade accounts, net	$ 150,000	$ 484,000

Due to factor	$ 10,345,000	$ 9,676,000
Contingent liabilities for irrevocable letters of credit	$ 3,114,000	$ 6,086,000

NITCHES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statement (continued)

6. Dividends:

We did not pay any cash dividends during the current period or the prior fiscal year. On January 20, 2006 we issued a 200% stock dividend to our shareholders of record as of January 3, 2006.

7. Significant Customers:

For the six months ended February 28, 2007, sales to three separate customers accounted for 43.9% of our net sales. Sales to two separate customers accounted for 42.0% of our net sales for the six months ended February 28, 2006. Sales to two customers accounted for 47.5% of our net sales in the three months ended February 28, 2007. Two separate customers accounted for 22.5% of our net sales in the three months ended February 28, 2006.

One customer accounted for 22.7% of our trade receivable balance as of February 28, 2007. Two customers accounted for 45.3% of our trade receivable balance as of February 28, 2006.

8. Acquisition of Saguaro LLC:

On October 24, 2006, we completed our acquisition of the Saguaro® mark and related trademarks from Impex Inc., a leading manufacturer of branded and non-branded specialty, western and private-label women's apparel. We paid consideration of $3,030,000 to Impex in the for